PENN WEST Petroleum Ltd.

2001 Annual Report

growing with energy

Corporate Profile

Penn West Petroleum Ltd. is a senior Canadian independent natural gas and crude oil producer that is sustaining profitable growth through a balanced strategy of cost effective acquisitions and development of its diversified asset base. During 2001, Penn West's production averaged 93,900 boe (6:1) per day, of which 59 percent was natural gas production.

At year-end 2001 Penn West's land base totalled 3.4 million prospective net acres of undeveloped land spread among five Core Areas that together offer a favourable mix of natural gas and crude oil prospects.

Penn West's current prospect inventory will sustain internally generated growth for many years. Penn West's financial strength positions the Company to participate in the continuing consolidation of the oil and natural gas industry in the Western Canadian Sedimentary Basin.

Penn West is a publicly traded company listed on The Toronto Stock Exchange, under the trading symbol "PWT." As at December 31, 2001, there were 52.7 million common shares issued and outstanding.

Annual General Meeting

The annual general meeting of the shareholders of Penn West Petroleum Ltd. will be held in the Britannia Room, The Westin Hotel, Calgary, Alberta, on Tuesday, May 21, 2002 at 2:00 p.m. Shareholders who are unable to attend are urged to complete, sign and mail their proxies to ensure their common shares will be voted at the meeting.

Financial and Operational Highlights

FINANCIAL ($ millions, except per share amounts and % change)

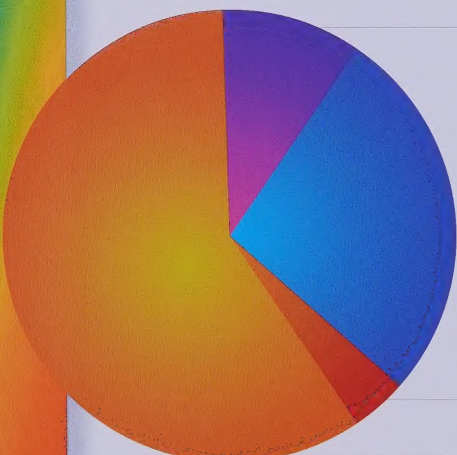
Years ended December 31	2001	2000	% change
Gross revenue	**1,076.2**	952.2	13
Cash flow	**612.9**	560.0	9
Basic per share	**11.72**	10.86	8
Diluted per share	**11.36**	10.46	9
Net income	**245.1**	222.5	10
Basic per share	**4.69**	4.31	9
Diluted per share	**4.54**	4.16	9
Capital expenditures, net	**633.5**	541.9	17
Bank indebtedness	**556.3**	590.4	(6)
Shareholders' equity	**1,114.1**	854.6	30
Total assets	**2,396.4**	2,001.1	20
Common shares outstanding (millions)			
Weighted average			
Basic	**52.29**	51.59	1
Diluted	**53.97**	53.52	1
Year-end			
Basic	**52.72**	51.82	2
Basic plus stock options	**58.11**	56.95	2

OPERATIONAL

Years ended December 31	2001	2000	% change
Production - annual average			
Oil and liquids (bbls/day)	**38,884**	32,462	20
Natural gas (mmcf/day)	**330.3**	306.2	8
Proven and probable reserves			
Oil and liquids (mmbbls)	**229.1**	196.3	17
Natural gas (bcf)	**1,071**	1,079	(1)
Wells drilled			
Gross	**453**	405	12
Net	**391**	341	15
Undeveloped land (000s of acres)			
Gross	**3,672**	3,030	21
Net	**3,381**	2,763	22
Average working interest (%)	**92**	91	1

growing with energy

Penn West generated record results for production, cash flow and net income during 2001.



- Annual liquids production increased by 20 percent year-over-year
- Annual natural gas production increased by 8 percent year-over-year

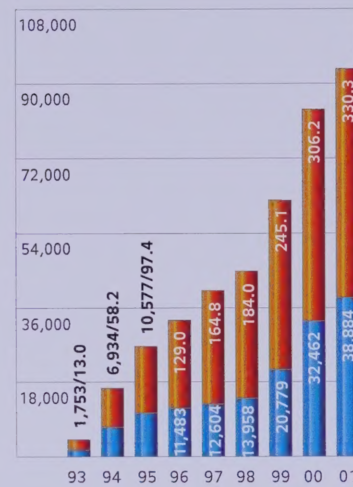
Natural Gas
59%

Natural Gas Liquids
4%

Light and Medium Oil
27%

Conventional Heavy Oil
10%

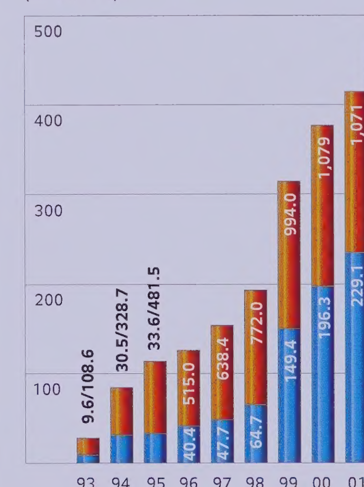
Average Daily Production
(boe/day at 6:1)



Natural gas (mmcf/day)
Oil and liquids (bbls/day)

Production growth was driven by an increase in natural gas production in the Northern Core Area and an increase in oil and liquids production in the Central Core Area.

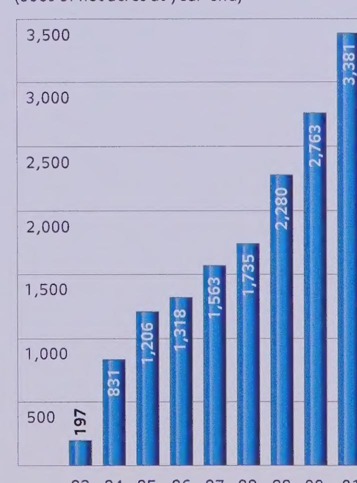
Reserves, Proven & Probable
(million boe)



Natural gas (bcf)
Oil and liquids (mmbbls)

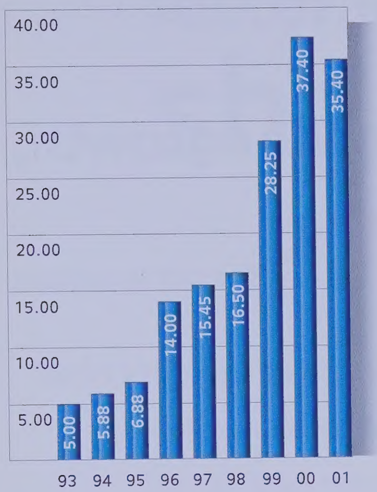
Penn West increased total reserves while maintaining competitive finding and development costs.

Undeveloped Land
(000s of net acres at year-end)



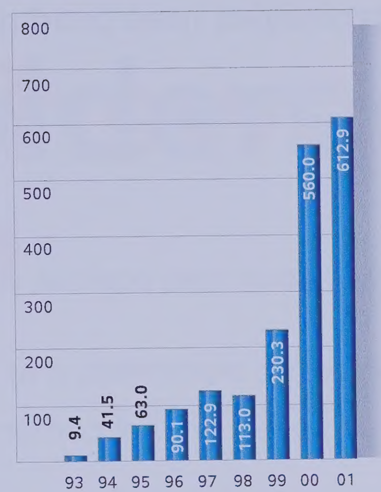
Our undeveloped land base increased by 22 percent for the year. Approximately 46 percent of this undeveloped land is located in our natural gas prone Northern Core Area.

Year-End Share Price
($/share)



The financial markets have recognized Penn West's performance over the past several years, increasing the Company's share price more than seven fold since 1993.

Cash Flow
($ millions)



Growth in cash flow for 2001 was driven by increasing production rates and improved pricing for natural gas.

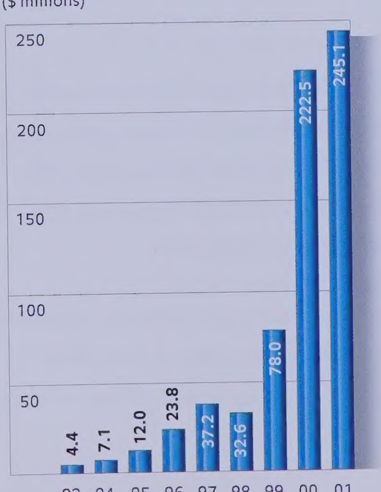
Cash Flow Per Share
($ basic)

Cash flow per share increased once again, reflecting Penn West's success in generating consistent growth.

After Tax Return on Equity
(%)

We achieved a return on equity of 24.9 percent in 2001.

Net Income
($ millions)



Net income has been positive in every quarter since the Company was revitalized with new management in late 1992.

Net Income Per Share
($ basic)

Net income per share was $4.69 in 2001. Penn West was trading at a price to earnings ratio of 7.5 times at year end.

our strategies have produced a **powerful** engine for growth, and have generated positive **results** for our investors

Penn West's track record of continuous success over the past nine years is based on five cornerstones of value creation.

1 **Acquisitions**

Acquisitions have played a vital role in establishing a dominant operating position. As commodity prices weakened later in 2001, Penn West completed several property acquisitions, including a $152 million transaction that included 6,200 boe of daily production and 75,000 net acres of undeveloped land.

2 **Development**

A full suite of development opportunities forms another cornerstone for growth. In 2001, the Company conducted a record drilling program totalling 391 net wells, including 237 successful natural gas wells and 97 successful oil wells.

3 **Exploration**

A diverse exploration portfolio provides a strong base for the future. Penn West's 3.4 million net acres of total undeveloped land will support many years of vigorous exploration.

4 **New Technologies**

Penn West uses new technologies to help sustain its growth and to generate value over the long term. The Company launched a pilot scale coalbed methane program and is operating a commercial scale, 700 barrel per day CO_2 miscible flood, with potential to apply the CO_2 miscible flood process to other Penn West properties.

5 **Financial Discipline**

Cost control is never more important than during times of weakening prices. Financial discipline is the final cornerstone of Penn West's strategy for sustained value creation. Low costs and strong netbacks generated a proven recycle ratio of 2:1 in 2001.

letter to our shareholders

Operating conditions in 2001 once again demonstrated that an oil and natural gas producer must be balanced, flexible, financially strong, technically proficient and in control of internal costs.

Penn West had an excellent year in 2001. The Company achieved strong year-over-year gains in production and reserves. We grew cash flow and net income to new records, even at a time of declining commodity prices. This brings Penn West's track record of profitable growth to nine consecutive years.

We are a senior independent producer with a wealth of experience in all parts of the Western Canadian Sedimentary Basin. We have substantial experience in enhanced recovery techniques, yet we are also a proven exploration company with major discoveries to our credit. Our people have experienced many of the situations that this dynamic industry can throw at us, and they know how to respond to maximize value to Penn West.

PERFORMANCE

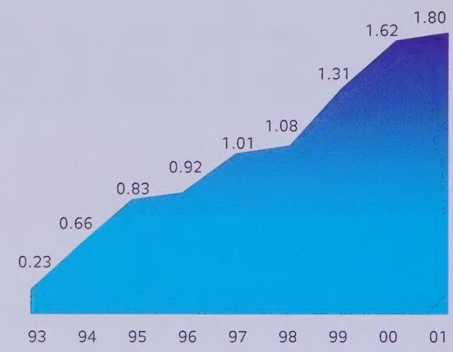
Penn West generated record financial and operating results in 2001, including:

- Average production of 93,900 boe per day, meeting our target for the year. Production consisted of 38,900 barrels per day of oil and natural gas liquids and 330 million cubic feet per day of natural gas;
- Year-over-year production growth of 13 percent;
- Drilled 391 net wells in 2001, achieving a success rate of 85 percent;
- Proven reserve additions totalling 39.7 million barrels of oil and natural gas liquids and 138 billion cubic feet of natural gas, representing 183 percent of 2001 production;
- Cash flow of $613 million ($11.72 per share), an increase of 9 percent from $560 million ($10.86 per share) in 2000;
- Net income of $245 million ($4.69 per share), an increase of 10 percent from $222 million ($4.31 per share) in 2000;
- Completed property acquisitions valued at $233 million, strengthening Penn West's light oil production base in the Central Core Area. Approximately 88 percent of the acquisition expenditures occurred in the second half of the year, as falling commodity prices led to improved acquisition values;
- G&A costs of $0.22 per boe of production; and
- Return on equity of 24.9 percent.

For nine consecutive years, Penn West has added to production and reserves on a per share basis.

Daily Average Production Per Share

(boe per thousand shares @ 6:1)



PENN WEST IN THE WESTERN CANADIAN SEDIMENTARY BASIN

The terrorist attack of September 11 crystallized a key issue facing this industry and the general public. The North American population had come to take the low energy prices of the 90s for granted, without regard to the fact that much of it was derived from geopolitically unstable regions. Working towards a reasonable level of energy self-sufficiency in North America has become an important goal as we strive to maintain our freedom and quality of life.

Penn West Petroleum is firmly situated and exclusively focused in the Western Canadian Sedimentary Basin. We were great believers in this Basin through the 90s, and we are great believers today in its continued ability to yield opportunities to create value for those companies who have a disciplined approach to their business. Penn West has spent the past decade building major positions throughout the Basin in areas that offer excellent economics for profitable growth in reserves and production.

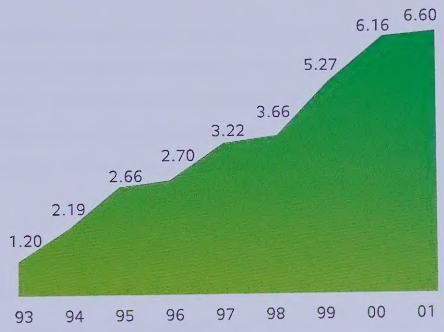
Penn West is now an experienced senior producer operating throughout Western Canada. We have the technical depth, financial flexibility and business discipline needed to take advantage of the years of opportunities that we see before us. Our land base of 3.4 million net undeveloped acres will support many years of active drilling activity. We have focused particularly on three broad play types: low- to medium-risk natural gas, high quality light oil and conventional heavy oil.

LONG-TERM GROWTH OPPORTUNITIES

Natural Gas Penn West is a major producer of natural gas. During 2001, the Company's overall production was weighted approximately 59 percent to natural gas.

The Northern Core Area is the key element in Penn West's natural gas growth, and is a good example of Penn West's ability to grow natural gas production through grass roots exploration and development. In 2001, Penn West drilled 153 net wells in the Northern Core Area, driving average daily production up by 18 percent over 2000 to 116 million cubic feet per day. Penn West is the industry leader in the Boyer region of northwest Alberta. At the 100 percent Penn West Wildboy play in northeast B.C., we have brought production from zero to 60 million cubic feet per day since 1998, and we have another significant expansion planned for 2002. Penn West is the dominant player in the Wildboy region, and owns a private sales pipeline into Alberta.

Proven Reserves Per Share at Year-End
(boe per share @ 6:1)



We are now broadening from our original exploration focus on the Bluesky, Gething and Jean Marie formations in the Northern Core Area. New opportunities will be vigorously pursued during 2002.

As Penn West matures, the Company is able to branch out into potentially higher impact play types. These will start on a small scale, with limited financial risk to the Company. At Firebird in the Peace River Arch Area, we have launched a deep natural gas exploration project. Penn West has also received regulatory approval for an experimental coalbed methane project in our Central Core Area. Coalbed methane is produced in several U.S. supply basins, but is in its infancy in Canada despite credible estimates of large scale coalbed methane gas in place. Penn West commenced drilling for coalbed methane in 2001.

High Quality Light Oil Although many of the Basin's major, conventional light oil pools have been discovered, secondary recovery opportunities have been only partially exploited, while tertiary recovery efforts have barely begun. In the past, fragmented ownership and a lack of sustained development effort hindered efficient production methods. As a result, we see a number of opportunities to increase the ultimate recovery potential of conventional light oil pools in the Central Core Area. In Penn West's view, hundreds of millions of barrels of reserves remain to be added.

I Acquisitions

In 2001, Penn West completed property acquisitions of $233 million, expanding our light oil base in our Central Core Area.

Penn West is now the dominant owner of the Cardium oil pool in the Pembina region of central Alberta, the largest conventional light oil field ever discovered in Canada. Our Central Core Area produced 26,800 barrels per day of light, sweet, premium-quality crude oil at year-end 2001. This oil commands among the best prices in Western Canada while incurring relatively low royalties. Since 1995, we have achieved a seven fold increase in liquids production in the Central Core Area through a series of strategic acquisitions, followed up by active development to increase production and reserves.

Penn West sees excellent potential to add large incremental reserves and production at low risk as we tap into this proven, well-defined deposit of light sweet crude oil. Secondary and tertiary recovery efforts on similar deposits have realized recovery rates that are much greater than the current 15 percent recovery at Pembina. The proven technology of waterflooding, for example, flattens the decline curve of producing wells, adding incremental reserves by increasing recovery of the oil in place. In 2001, we launched a vigorous waterflood program in the Pembina

2 Development

Penn West has an active and growing development program that includes in-fill drilling and optimization of existing production facilities.

3 Exploration

Wildboy is a good example of Penn West's exploration abilities. Building on a successful exploration program in 1995, actual natural gas production is expected to reach 90 million cubic feet per day by the second quarter of 2002.

Cardium Pool, restoring idle injectors and drilling new wells. Production results and reservoir simulation studies have both confirmed the potential for increasing recovery factors by improving waterflood performance and drilling new producing wells on tighter spacing.

Penn West's 719,000 acres of undeveloped land in the Central Core Area also have potential for further drilling, including horizontal wells. At the same time, we are beginning to evaluate tertiary recovery methods including CO_2 flooding and polymer flooding. Preliminary studies suggest we could add significant incremental reserves, further enhancing oil recovery from this area.

Conventional Heavy Oil For a producer with large scale, high quality assets and firm controls over internal costs, conventional heavy oil can be a highly profitable business. Conventional heavy oil currently represents approximately 10 percent of Penn West's total production.

Conventional heavy oil is another example of a full cycle program that includes exploration, primary development, infill drilling, horizontal drilling, secondary recovery and finally, tertiary recovery. The bulk of our properties are still on primary recovery. They are very amenable to low cost secondary recovery techniques, such as waterflood. This potential will allow Penn West to add reserves and production at low costs and low risk. Penn West's conventional heavy oil reserves are of better quality than bitumen, and do not require energy intensive applications such as steam injection. Our conventional heavy oil averages 16° API.

Additionally, Penn West's Plains Core Area properties contain many prospects for shallow natural gas. This wealth of opportunities allows Penn West to respond to short-term price movements by adjusting the balance of drilling efforts. Penn West drilled a total of 140 net wells in the Plains Core Area in 2001 and achieved a success rate of over 90 percent.

FINANCIAL STRENGTH

Penn West's efficient cost structure maximized earnings in 2001. The Company received an average sales price of $31.31 per barrel of oil and liquids and $5.24 per thousand cubic feet of natural gas. Operating costs averaged $5.05 per boe of production. This favourable balance between revenues and internal cost control resulted in record net income for the year.

Safeguarding the integrity of the Company's balance sheet has always been a priority at Penn West. Capital expenditures of $633.5 million in 2001 were largely financed by internally generated cash flow. Year-end 2001 bank debt of $556 million represents only 0.91

4 New Technologies

In 2002, Penn West will continue drilling at the coalbed methane project in our Central Core Area. We are also pursuing several tertiary recovery projects.

5 Financial Discipline

Penn West's limited debt and low operating cost structure keep us profitable throughout the commodity price cycle.

times trailing cash flow, and is a reduction from bank debt of $590 million at the end of 2000. This balance sheet strength leaves the Company solidly positioned going into 2002.

OUTLOOK AND PLANS FOR 2002

The high oil and natural gas prices of 2000 and early 2001 triggered a simple supply and demand response: the industry began drilling at a record rate, increasing supply, while the weakening North American economy reduced consumption. As a result, prices fell. In our industry, a company must be structured and managed in such a way that it can remain profitable during the inevitable down phases of the cycle.

For 2002, we forecast average prices of US$21.50 per barrel of WTI crude oil and Cdn$3.50 per thousand cubic feet of natural gas. The expected drop in commodity prices has necessitated a more conservative capital program for the year. We are planning total capital expenditures of $400 million to $500 million in 2002. We will also remain alert to opportunities for cost-effective acquisitions over and above this budget amount.

This budget will support drilling 330 net wells and will allow Penn West to increase average production to a range of 96,500 to 101,000 boe per day. At the forecast commodity prices, Penn West will generate cash flow of $400 million to $450 million ($7.50 to $8.50 per share).

Penn West is well prepared for all phases of the commodity price cycle, and we continue to look forward to 2002 and beyond with enthusiasm and optimism. We extend our sincere thanks to Penn West's dedicated team of employees, all of whom have worked to make Penn West a growing, profitable and strong Company. Our thanks also go to our Board of Directors.

On behalf of the Board of Directors,

N. Murray Edwards
Chairman

William E. Andrew
President

Calgary, Alberta
March 21, 2002

exploration, development & operations

Penn West's primary operational goal is to achieve continual, year-over-year increases in production and reserves, while maintaining financial discipline and creating shareholder value. The Company employs a proven business plan to attain these objectives.

Penn West has operations in five Core Areas in the Western Canadian Sedimentary Basin. Within these Core Areas, Penn West is focused on value creation through strategic acquisitions, development drilling, exploration activities and the application of new technology.

Our business plan has delivered nine consecutive years of success. Penn West maximizes project economics by assuming operatorship, acquiring high working interests and attaining regional dominance. In order to support an active exploration program, Penn West continually builds its base of undeveloped lands.

Diversification between natural gas, light oil and conventional heavy oil prospects allows the Company to balance its capital expenditures in the direction of the most favourable short term prices. To further strengthen the Company's long term growth opportunities, Penn West is allocating a portion of its capital expenditures to deep natural gas exploration, and to the application of new technology to maximize hydrocarbon recovery in existing fields.

2001 OVERVIEW

In 2001, Penn West achieved about two-thirds of its growth through the exploration and development of internally generated prospects, with the balance through acquisitions of producing properties that offer future development opportunities. Penn West's $634 million capital program included $401 million for exploration and development spending, with a record drilling program of 391 net wells. A further $233 million was committed to a series of acquisitions of producing properties located primarily in our Central and Plains Core Areas. These acquisitions consolidated our area holdings, and will help the Company increase operating efficiencies and increase our inventory of opportunities to add production and reserves. The table on page 11 details Penn West's capital expenditures in 2001.

1 Capital Expenditures

($ millions, net)

Years ended December 31	2001	2000	1999
Land acquisition and retention	$ 43.2	$ 27.3	$ 23.8
Net property acquisitions	233.0	206.0	568.6
Drilling and completions	201.7	149.8	89.2
Facilities and well equipping	134.3	144.5	67.2
Geological and geophysical	19.9	11.5	9.7
Other	1.4	2.8	1.5
Capital expenditures	$ 633.5	$ 541.9	$ 760.0

Due to strong commodity prices, first half spending was almost entirely devoted to exploration and development activities. Activity in the first quarter was focused on a very active natural gas program in the Company's seasonal access Northern Core Area, where natural gas production was increased by 18 percent.

During the second half, as commodity prices weakened, the Company completed several property acquisitions focused on light oil in the Central Core Area. The most significant of these was a $152 million transaction that included 6,200 boe of daily production and 75,000 net acres of undeveloped land. During the second half, the Company also pursued crude oil development, including ongoing waterflood enhancements in our Cardium oil project in the Central Core Area.

2001 RESULTS

Penn West's key operating results for 2001 included:

- Drilled 391 net wells, a Company record, with an overall success rate of 85 percent;
- Increased average production to 93,900 boe per day (6:1), consisting of 38,900 barrels per day of oil and natural gas liquids and 330 million cubic feet per day of natural gas;
- Added proven reserve totalling 39.7 million barrels of oil and natural gas liquids and 138 billion cubic feet of natural gas;
- Replaced 183 percent of 2001 production with proven reserves; and
- Averaged netbacks of $19.87 per boe of production.

NORTHERN CORE AREA

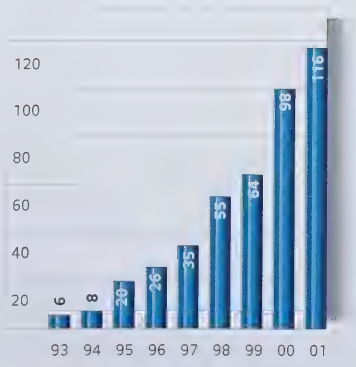
The Northern Core Area contains 46 percent of Penn West's total undeveloped land. Expenditures in the Northern Core Area represented approximately 40 percent of Penn West's exploration and development spending in 2001. Penn West drilled 153 net wells during the 2000-2001 winter drilling season, growing production by 18 percent to 116 million cubic feet per day at the end of 2001. Northern Core Area operations are concentrated in two property groups, Boyer and Wildboy. Both are Penn West developed plays that have been built almost exclusively through grass roots exploration and development.

Drilling at the Boyer group of properties primarily targets the Bluesky and Gething zones at depths of 300-500 metres. Throughout Boyer's development, Penn West has aggressively expanded its land position and has developed promising leads and new production at Sousa, Hotchkiss, Haig and Lennard. Penn West is currently completing a 60 well winter drilling program in the Boyer area.

The aggressive exploration and development of the Wildboy field followed a Penn West discovery in 1995. Since then, Penn West has successfully completed four expansion projects to bring current natural gas production to approximately 60 million cubic feet per day. A fifth expansion is underway, to bring total natural gas production to approximately 90 million cubic feet per day by the second quarter of 2002. Over the past several years, these expansion projects have included dozens of vertical and horizontal natural gas wells, construction of a major natural gas processing plant, construction of a 60 kilometre sales line to deliver production into Alberta, and the acquisition of an extensive land base. The Wildboy area is another example of Penn West's success in adding value through exploration and development.

Undeveloped Land by Core Area
(net acres)

Northern Core Area Natural Gas Production
(mmcf/day)



PLAINS CORE AREA

The Plains Core Area provides Penn West with a strong platform for low cost, low risk growth. This area contains Penn West's conventional heavy oil production and is an important source of shallow depth natural gas production. The area holds multi-zone potential in the Belly River, Viking, Colony, Sparky and Bakken pools at shallow depths of 300-1,000 metres. At the end of 2001, production averaged 13,500 barrels per day of crude oil and natural gas liquids and 64 million cubic feet per day of natural gas. This represented 25 percent of Penn West's production. During 2001, Penn West drilled 140 net wells in the Plains Core Area, of which approximately 38 percent were oil wells and 55 percent were natural gas wells, yielding a success rate of 93 percent.

Penn West's Plains Core Area operations centre on three large, high working interest property groups: Esther, Hoosier and Wainwright. These areas provide Penn West with opportunities for full cycle value creation including exploration drilling, primary development, infill and horizontal drilling, secondary recovery, acquisitions and finally, tertiary recovery. Since 1993, Penn West has made numerous multi-million barrel discoveries of heavy oil in the area. Ongoing natural gas drilling continues to yield new pools and pool extensions. The large scale of operations, tight geographical focus and control of required infrastructure allows Penn West to maintain low exploration and operating costs.

Most of Penn West's heavy oil pools have good secondary recovery potential. The reserves average 16 degrees API, and the oil will free-flow without steam or other energy intensive applications. The proven operational successes, strong economics of secondary recovery projects and a land base of 691,000 net acres mean that the Plains Core Area will be a source of low cost growth for years to come.

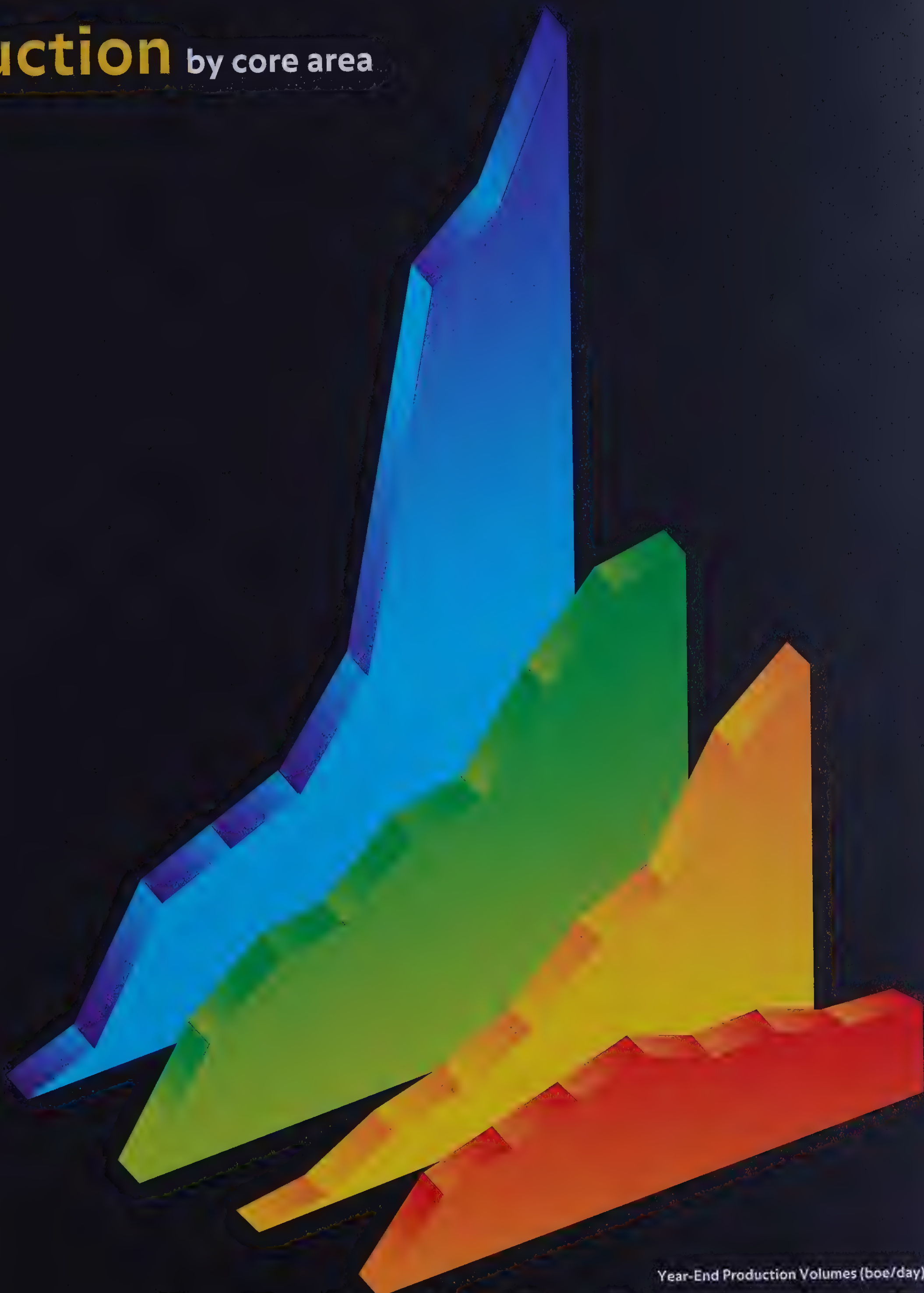
SOUTHEAST SASKATCHEWAN CORE AREA

The Williston Basin of Southeast Saskatchewan is a proven producing area of medium-depth, Mississippian age light crude oil. Penn West produces 700 barrels per day of crude oil in the Area, with the majority coming from our Flat Lake property. Using 3-D seismic and horizontal drilling, Southeast Saskatchewan continues to offer potential for the revitalization of producing fields plus exploration possibilities for small but potentially very productive new oil plays.

Natural Gas Production by Core Area
(mmcf/day)

Plains Core Area Production
(boe/day @ 6:1)

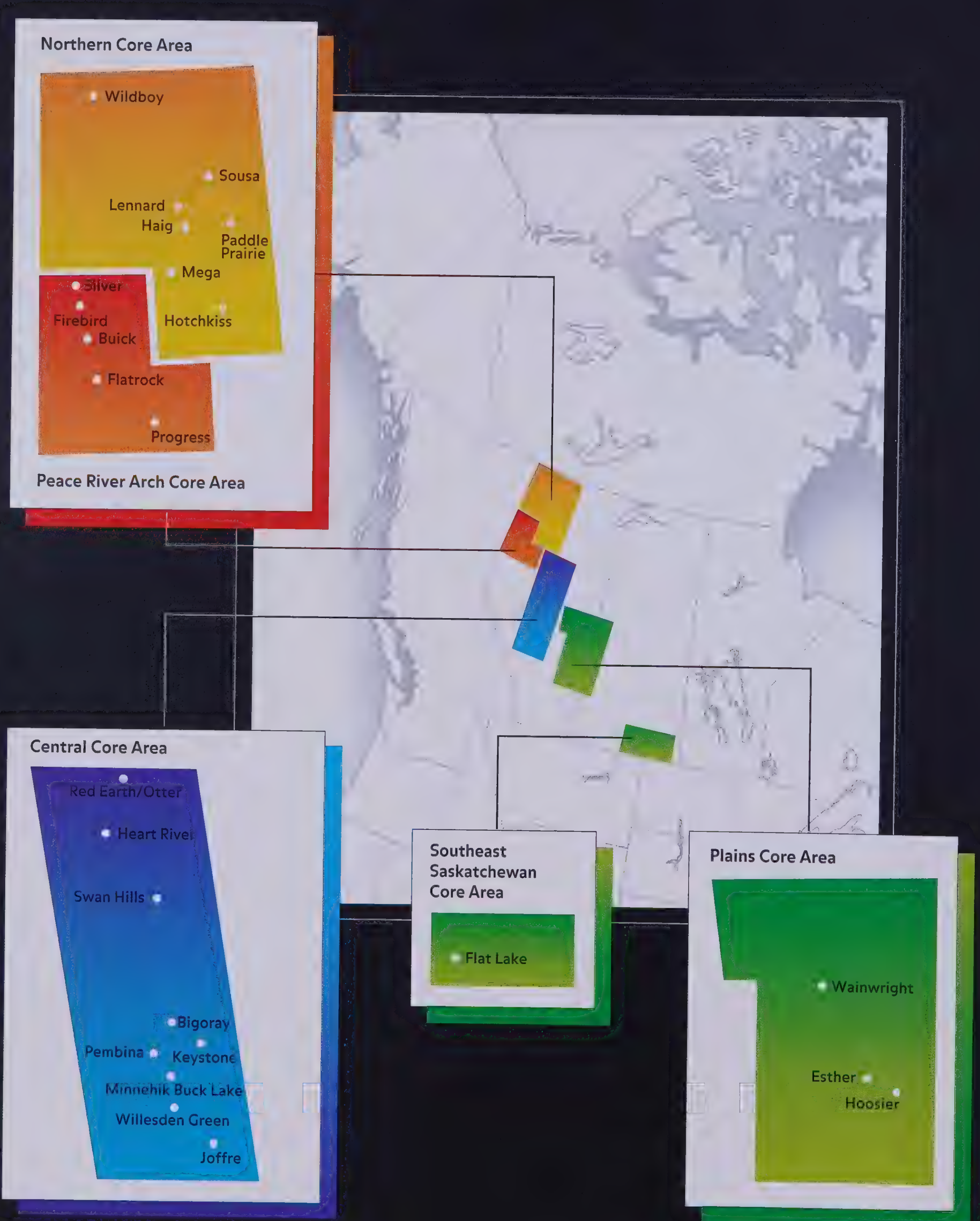
production by core area



Year-End Production Volumes (boe/day)

	93	94	95	96	97	98	99	00	01
Northern	950	1,400	3,400	4,400	6,100	9,400	10,900	16,800	19,500
Peace River Arch	710	4,800	6,000	7,100	8,200	7,000	7,100	6,000	5,200
Central	1,200	2,900	9,200	10,700	12,200	17,100	36,300	39,200	47,100
Plains	2,400	8,200	9,200	10,700	11,700	14,200	19,400	23,100	24,200
S.E. Saskatchewan/Other	-	-	2,700	1,700	3,900	2,100	1,500	1,500	1,000

review of core areas



CENTRAL CORE AREA

Penn West's Central Core Area forms the backbone of the Company's production and reserves. It provides 64 percent of oil and liquids production and 37 percent of natural gas production. Penn West sees numerous opportunities for growth in reserves and production from this area.

The principal asset in the Central Core Area is the Pembina Cardium oil field. This medium depth reservoir was Canada's largest ever light oil discovery, and it ranks among the largest fields discovered in North America. Penn West recognized a great opportunity in the mid-90s when some companies began to exit the Western Canadian Sedimentary Basin. A series of subsequent acquisitions has made Penn West the dominant owner and operator of the Pembina Cardium field.

Only 15 percent of the Pembina Cardium's original 7.8 billion barrels of oil-in-place has been produced to date. This high quality light oil is very amenable to secondary and tertiary recovery programs. Secondary recovery efforts will be aimed at increasing water injection rates and infill drilling to improve waterflood sweep efficiencies. The Company also sees opportunities for horizontal drilling. In 2001, Penn West drilled a horizontal Cardium well that yielded promising results. The Company plans to drill five additional horizontal Cardium wells in 2002.

The Central Core Area is also Penn West's largest natural gas producing area, with production exceeding 120 million cubic feet per day at year-end 2001. The natural gas plays of the area tend to be multi-zone and liquids rich. Penn West's control of natural gas processing facilities throughout the area allows the Company to dominate the surrounding gas operations.

In 2001, Penn West was an active explorer in lands located north and west of Lesser Slave Lake. We drilled a total of 19 wells targeting natural gas in the Cretaceous and Mississippian formations as well as oil in the Devonian and Granite Wash.

Crude Oil Production by Core Area

Central Core Area Production
(boe/day @ 6:1)

PEACE RIVER ARCH CORE AREA

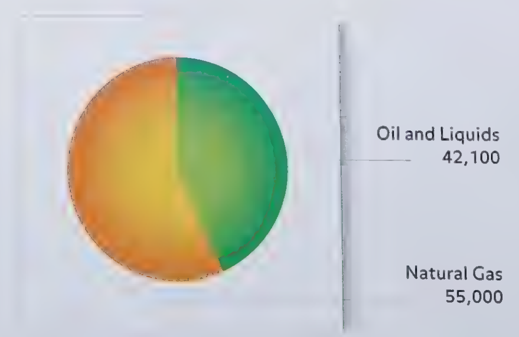
The Peace River Arch Core Area is a highly competitive region straddling the Alberta-British Columbia border. This area has significant exploration potential, as evidenced by the industry's recent discovery of the sizeable Ladyfern pool in the Slave Point formation. The Peace River Arch Core Area offers multi-zone natural gas and oil potential. Targets include the shallow depth Cretaceous at 700 - 1000 metres and the deeper Triassic, Mississippian and Devonian formations at depths of 1300 - 3000 metres.

In 2001, the Peace River Arch Core Area generated five percent of Penn West's total production. The Company holds 140,000 net acres of undeveloped land in the Peace River Arch Core Area. During the first quarter of 2002, Penn West initiated a large 3-D seismic program targeting a high working interest land block with deep gas potential.

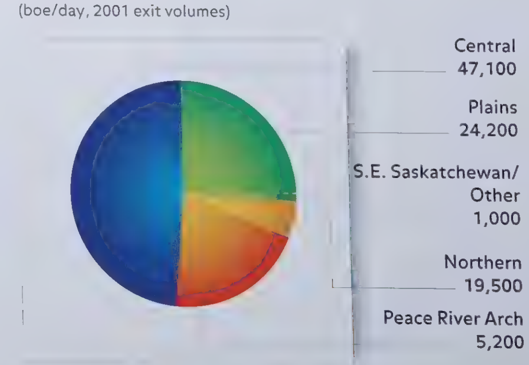
Core Areas
(2001 exit volumes)

Core Area	Undeveloped Land (net acres)	Land %	Oil & Liquids (bbls/day)	Natural Gas (mmcf/day)	Boe (boe/day)	Oil & Liquids %	Natural Gas %	Boe %
Northern	1,547,000	46	200	116	19,500	0	35	20
Peace River Arch	140,000	4	900	26	5,200	2	8	5
Central	719,000	21	26,800	122	47,100	64	37	49
Plains	691,000	21	13,500	64	24,200	32	19	25
S.E. Sask/Other	284,000	8	700	2	1,000	2	1	1
Total All Properties	3,381,000	100	42,100	330	97,000	100	100	100

Total Production by Product
(boe/day, 2001 exit volumes)



Production by Core Area
(boe/day, 2001 exit volumes)



five cornerstones of value creation

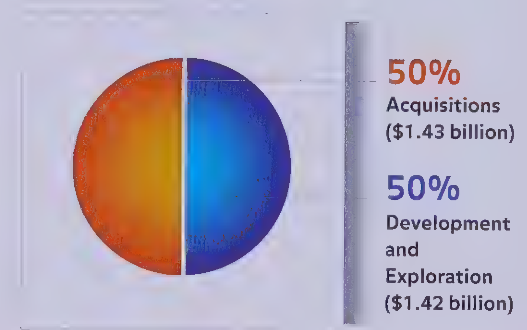
I Acquisitions

Penn West has demonstrated an ability to integrate large acquisitions into our organization when opportunities become available. Penn West's strength in acquisitions is one cornerstone of the Company's profitable growth. In certain areas, such as the Central Core Area, acquisitions have played a vital role in establishing a dominant operating position in existing, under-developed assets.

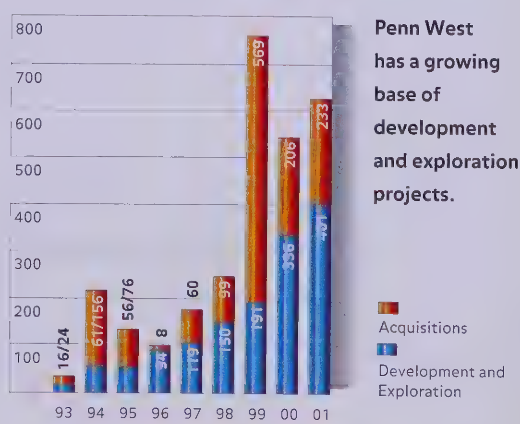
As shown in the pie chart at right, the Company's capital expenditures over the past nine years have been balanced between acquisitions and exploration and development. The accompanying graph details the Company's historical capital expenditures for acquisitions and for development and exploration. Most of the Company's acquisitions since 1999 have been focused on attaining dominance over the Pembina Cardium pool in the Central Core Area, including a key acquisition from BP-Amoco in 1999. This was followed up in 2000 and 2001 with further acquisitions that consolidated Penn West's position.

Penn West's expenditures on development and exploration have increased steadily over time, while the much more irregular acquisition expenditures have been triggered by available opportunities. Penn West's acquisitions are based on fundamental and largely unchanging criteria, while property prices tend to fluctuate with commodity prices. Consequently, Penn West often completes more acquisitions during the down phase of the commodity price cycle. This was evident in 2001. Acquisitions during the first half, a period of strong pricing, represented only nine percent of total spending. As commodity prices fell throughout the year, so did property prices. The Company's acquisition spending increased accordingly, to 64 percent of total spending during the second half of 2001. The acquisition environment continues to look promising into 2002.

Capital Expenditures
(1993 - 2001)



Historical Capital Expenditures
($ millions)



Spending on acquisitions during 2001 totalled $233 million. The largest of these occurred in the third quarter, when Penn West acquired properties with a combined value of $152 million that produced a total of 5,200 barrels per day of light oil and natural gas liquids and 6 million cubic feet per day of natural gas. Most of the acquired production is in the Central Core Area. The acquisition included 75,000 net acres of undeveloped land, further strengthening the Company's inventory of future development prospects. The balance of $81 million was spent on a series of smaller acquisitions, most of which were also concentrated in the Central Core Area.

Penn West has used acquisitions as a key part of the method for entering a new area. Following an initial learning period, the Company then begins to expand through development, further land and property acquisitions, exploration and optimization. This business model has served the Company well and will continue to guide Penn West in its future growth.

During 2001, Penn West employed this strategy to acquire operatorship of a unique carbon dioxide (CO_2) miscible flood at Joffre, Alberta. Knowledge and experience from this project will enhance our ability to apply tertiary recovery techniques to other Penn West light oil fields.

2 Development

Another cornerstone of Penn West's method of value creation is the development of prospects using low risk, low cost drilling plans that are repeatable on a significant scale. During 2001, Penn West conducted a record drilling program totalling 391 net wells, an increase of 15 percent from the Company's 2000 program. The drilling program resulted in 237 successful natural gas wells and 97 successful oil wells, for an overall success rate of 85 percent.

During the first quarter, drilling focused on seasonal access properties in the Northern Core Area. Penn West drilled more than 100 shallow gas wells at its Boyer group of properties, and 44 wells in and around Wildboy. Later in the

2 Drilling Results

Years ended December 31	2001		2000		1999	
	Gross	**Net**	Gross	Net	Gross	Net
Natural gas	**274**	**237**	228	203	139	128
Oil	**118**	**97**	129	94	44	42
Dry	**61**	**57**	48	44	27	26
Total	**453**	**391**	405	341	210	196
Average working interest (%)		**86**		84		93
Success rate (%)		**85**		87		87

year, the focus shifted to the Plains and Central Core Areas. In the Plains Core Area, Penn West conducted a mixed program of low-risk, shallow natural gas drilling and shallow-depth, conventional heavy oil drilling. In the Central Core Area, the Company conducted a significant program, drilling 78 wells aimed at improving recovery rates and searching for new pools of natural gas and light crude oil.

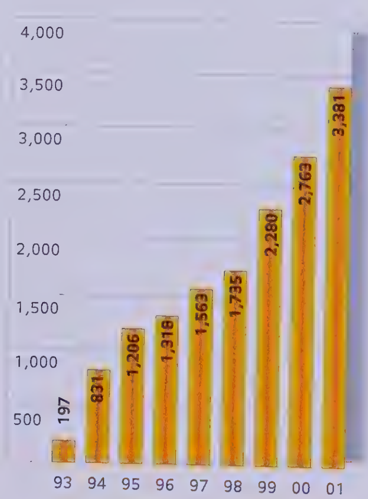
At the Pembina Cardium project in the Central Core Area, Penn West continued with a development program that began in 2000, focused on optimizing waterflood performance. Work included re-starting idle injector wells, increasing water injection rates and drilling new wells. Production results from this project have been encouraging. Drilling in the Central Core Area also included one promising horizontal Cardium oil well that will be followed up with additional horizontal wells in 2002.

3 Exploration

Since 1993, Penn West has built an effective and growing exploration capability. In certain areas, most notably the Northern Core Area, exploration has been the key ingredient in building a very sizeable production base of natural gas. The Company's strength in exploration has been a cornerstone in generating profitable growth in new, undeveloped areas.

The chart below shows Penn West's growth in undeveloped land holdings in Western Canada. Undeveloped land increased by 22 percent in 2001 to a total of 3.4 million net acres at year-end. The largest concentration of land is in the Northern Core Area, where Penn West holds 1.5 million net acres, representing 46 percent of total land holdings. This growing base of land supports an active exploration program that has generated production growth averaging 35 percent per year over the past five years.

Undeveloped Land
(000s of net acres at year-end)



3 Undeveloped Land Base
(000s of acres at year-end)

	2001	2000	1999
Gross acres	**3,672**	3,030	2,583
Net acres	**3,381**	2,763	2,280
Average working interest (%)	**92**	91	88

Spending on geological and geophysical activities increased by 73 percent to $19.9 million in 2001 from $11.5 million in 2000. During 2001, Penn West initiated a review of exploration land in the Peace River Arch Core Area, targeting deep zones of interest on Penn West lands in northeastern British Columbia. Additional seismic data in this pure exploration play area will be acquired during the first quarter of 2002.

4 New Technology

Penn West has initiated programs to utilize new technology to help sustain its ability to grow and generate value over the long term. The Company has received regulatory approval to begin a pilot-scale coalbed methane program. Penn West's Central Core Area lands have extensive coalbed methane potential. This will be one of the first programs in the region aimed at this new resource.

Penn West is also working on tertiary recovery technologies. Tertiary programs at some U.S. pools have boosted recovery to as much as 40 percent of the original oil-in-place. Penn West is now the operator of a commercial scale carbon dioxide (CO_2) miscible flood at Joffre. The property produces 700 barrels per day of light oil. It is estimated that CO_2 miscible flooding could increase the recovery factor of the Joffre Viking pool by 15 percent of original oil-in-place, over and above the secondary recovery rate. Penn West believes that many of our light oil properties will benefit from future tertiary recovery applications over the medium to long term, with very significant potential for incremental oil reserves.

CO_2 flooding has the additional benefit of removing CO_2 gas from the environment, an area of increasing concern. Penn West is focused on implementing measures to control hydrocarbon emissions. We actively pursue programs to conserve solution gas, vent gas and waste heat. During 2001, Penn West installed a state of the art cogeneration facility at the Minnehik Buck Lake plant. This facility provides efficient, clean power generation while decreasing the plant's output of effluent and waste heat. The Company intends to continue to aggressively pursue new technology projects in the future.

5 Financial Discipline

Cost control is important in all phases of the commodity price cycle, but never more so than during times of weakening prices. Financial discipline is the final cornerstone of Penn West's strategy for sustained value creation through all phases of the commodity price cycle.

The slide in commodity prices that began in the second quarter of 2001, following cyclical high oil prices and record high natural gas prices, created challenges for Canadian producers. Intense levels of industry field activity created price inflation for undeveloped land, drilling costs and field services.

During 2001, Penn West continued to work diligently to restrain its controllable costs. By focusing on costs, Penn West was able to generate record cash flows and maintain a strong balance sheet.

In 2001, Penn West incurred operating costs of $5.05 per boe of production. Broken down by commodity, the average operating cost was $8.77 per barrel of oil and liquids and $0.40 per thousand cubic feet of natural gas. These costs increased from 2000 due to increased power costs in Alberta, price inflation in field services, and an increasing focus on secondary recovery projects. It is expected that cost pressures will lessen in 2002 as industry activity levels retreat from the record high levels experienced at the beginning of 2001.

4 Finding and Onstream Costs (6:1)

	2001	2000	1999
Capital expenditures ($ millions, net)	**$ 633.5**	$ 541.9	$ 760.0
Net proven reserve additions (mmboe)	**62.6**	80.1	126.7
Average cost ($/boe)	**$ 10.12**	$ 6.76	$ 6.00
Net proven and probable reserve additions (mmboe)	**65.8**	91.7	144.2
Average cost ($/boe)	**$ 9.64**	$ 5.91	$ 5.27

A producer's average cost of finding and developing new reserves is a key indicator of the Company's ability to sustain profitable growth. Penn West incurred finding and development costs averaging $9.64 per boe of new proven plus probable reserves added during 2001. Penn West's five-year average finding and development cost is $5.92 per boe proven plus probable, a strong performance within the Canadian industry.

Low costs and strong netbacks generated an investment recycle ratio in 2001 of 2:1.

Another important element of financial discipline is the prudent use of debt. Safeguarding the integrity of the Company's balance sheet has always been a priority at Penn West. Over the past two years, capital expenditures have been funded entirely from cash flow. This means that the Company's significant growth since the end of 1999 has been achieved with internally generated funds. This has resulted in a strong balance sheet that leaves the Company with the flexibility to consider a wide range of investment options in 2002.

summary of reserves

By continuing to pursue a strategy that includes acquisitions, development, exploration, new technology and financial discipline, Penn West was successful in adding new reserves in 2001.

Penn West's reserves were evaluated by independent, third-party engineers. Major properties representing 89 percent of the Company's total proven plus probable reserves were evaluated by McDaniel and Associates Consultants Ltd. and Gilbert Laustsen Jung Associates Ltd. The balance of approximately 11 percent of proven plus probable reserves were evaluated by the Company in conjunction with an independent third party, Resources West Inc.

At year-end 2001, Penn West's proven plus probable reserves totalled 408 million boe. This consisted of 229 million barrels of crude oil and liquids and 1,071 billion cubic feet of natural gas. During 2001 Penn West grew its overall reserves by eight percent over year-end 2000. Proven reserve additions during 2001 replaced 183 percent of the year's production, continuing Penn West's track record of sustained growth.

5 Reserve Values

	Reserves (before royalties) Oil and Liquids	Natural Gas	Before Tax Discounted Value of Estimated Future Net Revenue* ($ millions)			
	(mmbbls)	(bcf)	0%	10%	15%	20%
Proven producing	154.8	761.6	4,493	2,334	1,953	1,690
Proven non-producing	34.8	187.4	1,093	423	286	208
Total proven	189.6	949.0	5,586	2,757	2,239	1,898
Probable	39.5	122.4	1,214	290	200	149
December 31, 2001	229.1	1,071.4	6,800	3,047	2,439	2,047
December 31, 2000	196.3	1,078.8	6,479	3,180	2,637	2,280
December 31, 1999	149.4	994.0	3,715	1,824	1,477	1,251

* The estimate of future net production revenue was based on the price forecast outlined in Table 9, adjusted as required for transportation and quality differentials.

6 Oil and Liquids Reserves

(mmbbls, before royalties)

	2001	2000	1999
Proven producing	**154.8**	141.1	111.9
Proven non-producing	**34.8**	23.0	11.9
Total proven	**189.6**	**164.1**	**123.8**
Probable	**39.5**	32.2	25.6
Total	**229.1**	**196.3**	**149.4**
Reserve life index (years)	**14.9**	15.4	14.4

7 Natural Gas Reserves

(bcf, before royalties)

	2001	2000	1999
Proven producing	**761.6**	729.0	653.5
Proven non-producing	**187.4**	202.3	222.6
Total proven	**949.0**	**931.3**	**876.1**
Probable	**122.4**	147.5	117.9
Total	**1,071.4**	**1,078.8**	**994.0**
Reserve life index (years)	**8.9**	9.5	9.7

8 Reserve Additions

(before royalties)

	Oil and Liquids (mmbbls)			Natural Gas (bcf)		
	Proven	Probable	Total	Proven	Probable	Total
December 31, 1998	54.3	10.4	64.7	667.6	104.4	772.0
Discoveries and extensions	14.3	2.3	16.6	156.7	19.4	176.1
Acquisitions/dispositions	63.5	13.8	77.3	165.6	5.6	171.2
Production	(7.6)	–	(7.6)	(89.5)	–	(89.5)
Revisions of prior estimates	(0.7)	(0.9)	(1.6)	(24.3)	(11.5)	(35.8)
December 31, 1999	123.8	25.6	149.4	876.1	117.9	994.0
Discoveries and extensions	24.5	2.9	27.4	170.1	19.7	189.8
Acquisitions/dispositions	27.8	3.9	31.7	6.5	9.9	16.4
Production	(11.9)	–	(11.9)	(112.1)	–	(112.1)
Revisions of prior estimates	(0.1)	(0.2)	(0.3)	(9.3)	–	(9.3)
December 31, 2000	164.1	32.2	196.3	931.3	147.5	1,078.8
Discoveries and extensions	17.8	5.4	23.2	135.4	(25.1)	110.3
Acquisitions/dispositions	22.8	2.1	24.9	14.9	–	14.9
Production	(14.2)	–	(14.2)	(120.6)	–	(120.6)
Revisions of prior estimates	(0.9)	(0.2)	(1.1)	(12.0)	–	(12.0)
December 31, 2001	**189.6**	**39.5**	**229.1**	**949.0**	**122.4**	**1,071.4**

9 Price Forecast

	Oil	Oil	Oil	Natural Gas
	WTI ($US/bbl)	Light Crude at Edmonton ($/bbl)	Medium Crude at Hardisty ($/bbl)	Alberta Average Field Price ($/mmbtu)
2002	20.00	30.30	19.80	4.15
2003	20.90	31.10	23.10	4.40
2004	21.80	32.00	26.00	4.45
2005	22.20	32.10	27.10	4.45
2006	22.60	32.20	27.20	4.45
2007	23.10	32.90	27.90	4.50
2008	23.60	33.60	28.60	4.50
2009	24.10	34.30	29.30	4.55
2010	24.60	35.00	30.00	4.65
2011	25.10	35.70	30.70	4.75

10 Net Asset Value

($ millions before tax at December 31, 2001, except per share amounts)

	Discount Rate 10%	Discount Rate 15%
Reserves (proven plus probable)	3,047	2,439
Undeveloped land (at $100/acre)	338	338
Proceeds from stock options	146	146
Bank loan and working capital	(614)	(614)
Net asset value	2,917	2,309
Shares and stock options outstanding at year-end (millions)	58.11	58.11
Net asset value per share	$50.20	39.73

2002 DEVELOPMENT PROGRAM

Penn West's 2002 development program represents a continuation of the business plan that has been refined over the past several years. First quarter spending is heavily focused on natural gas exploration and development in the winter access Northern Core Area, while second half activity will concentrate on exploration and development in the Central Core Area and Plains Core Area.

The weaker commodity price environment will call for a more conservative spending approach. The Company plans total capital investment of $400 million to $500 million. This budget is based on Penn West's forecast average 2002 commodity prices of US$21.50 per barrel of W.T.I. oil and Cdn$3.50 per thousand cubic feet of natural gas. Of total planned spending, $70 million to $170 million is currently allocated to acquisitions with the balance of $330 million allocated to exploration and development on Penn West lands.

This budget will fund drilling of approximately 330 net wells. The Company aims to increase average production to a range of 96,500 to 101,000 boe per day. Of this amount, approximately 57 percent will be natural gas. Penn West will continue to concentrate on adding value through acquisitions, development, exploration and new technology in the Western Canadian Sedimentary Basin, while continuing to maintain financial discipline.

MARKETING

Natural Gas Marketing

During 2001, Penn West continued to sell most of its natural gas production to direct markets, with the balance sold to several aggregator pools. On average, the Company hedged approximately 15 percent of its natural gas production last year. In 2001, Penn West received an average sales price of $5.24 per thousand cubic feet of production, an increase of 11 percent from the average price of $4.70 per thousand cubic feet in 2000.

In recent years, the domestic Alberta market has offered a premium netback relative to most other indices. Penn West has managed its sales portfolio to attain a significant weighting to this market. During 2001, approximately three quarters of the Company's natural gas production was sold within Alberta.

Penn West's natural gas marketing principles include:

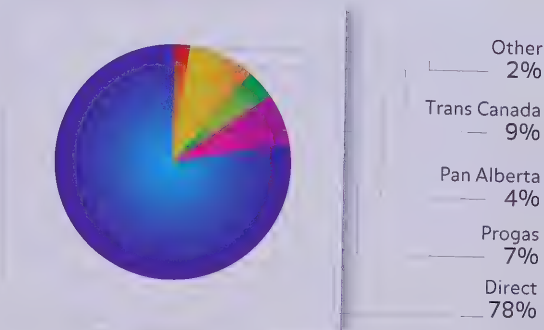
- Ensuring receipt transportation is balanced with supply;
- De-contracting from aggregators wherever it makes economic sense;
- Pursuing low risk, high netback indices; and
- Limiting marketing arrangements to creditworthy counterparties.

Oil and Liquids Marketing

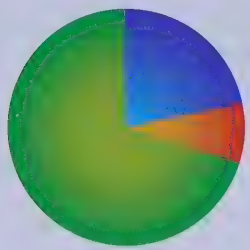
Penn West received an average oil and liquids price of $31.31 per barrel for its production in 2001. Light and medium oil, with an average quality of 37° API, accounts for approximately 71 percent of the Company's oil and liquids production. Conventional heavy oil has an average quality of 16° API, and makes up approximately 21 percent of total oil and liquids production. On balance, Penn West's crude oil is very light, with an average overall oil quality of 32° API.

Crude oil prices are forecast to remain lower in 2002 compared with the cyclical highs of 2000 and early 2001. With growing production, the Company continues to actively manage its crude oil sales to attract above average pricing, and to optimize netbacks by directing crude shipments to higher priced markets.

Natural Gas Marketing
(At December 31, 2001)



Crude Oil and Liquids Marketing
(At December 31, 2001)



THE ENVIRONMENT

The petroleum industry is committed to minimizing the environmental impacts from oil and natural gas operations and involving all stakeholders throughout the process. Penn West fully understands its responsibilities in this important area and recognizes the interests of other land users in resource development areas, conducting its operations accordingly. Penn West's Environmental Policy and Environmental Management Plan (EMP) encompass the full range of air, water, soil and waste issues associated with exploration, development and production. The EMP includes guidelines to 11 key areas that must be considered in conjunction with oil and natural gas development plans. These guidelines help ensure safe and environmentally sound field operations. The Environmental Operating Guidelines (EOG) are used to train Penn West's employees in the practical and economical implementation of the EMP.

Penn West maintains a program of detailed inspections, audits and field assessments to determine and quantify the environmental liabilities that will be incurred during the eventual decommissioning and reclamation of its field facilities. Penn West pursues a program of environmental impact reduction aimed at minimizing these future corporate liabilities without hampering field productivity. This program, launched in 1994 and ongoing into 2001, includes measures to remediate potential contaminant sources, reclaim spill sites and abandon unproductive wells and shut-in facilities. In addition, Penn West has implemented strategies to reduce greenhouse gas emissions and flaring.

The oil and natural gas industry is subject to environmental regulations under provincial and federal legislation. This legislation provides for restrictions and prohibitions on releases or emission of various substances produced in association with oil and natural gas operations. In addition, the legislation requires that well and facility sites must be abandoned and reclaimed to the satisfaction of provincial criteria. Compliance with this legislation can require significant expenditures; a breach of such requirements could result in the imposition of material fines and facility closures. Penn West's environmental programs are monitored to ensure that they comply with all government environmental regulations and with the Company's own environmental policies. The results of these programs are reviewed with Penn West's management and operations personnel.

management's discussion & analysis

For the year ended December 31, 2001

Penn West has a proven management team, dedicated employees and an established business plan.

The Company has progressed from a very small producer in 1992 into the top ranks of independent oil and natural gas producers in Western Canada. We have focused on a disciplined approach to business that stresses cost control and balance. Using this discipline, we have shown the ability not only to explore for and develop reserves of crude oil and natural gas, but also to acquire and optimize producing fields of crude oil and natural gas. We have a diverse and strong asset base that we will continue to expand using our proven business plan.

Our vision is to create shareholder value through year-over-year prudent growth in:

a) production of crude oil and natural gas;

b) reserves of crude oil and natural gas; and

c) cash flow that results in increased profitability.

We recognize that long-term success depends on financial discipline. Using our established business plan, we have achieved profitable growth without undue dilution of our shareholders and with prudent use of debt as outlined in the table below.

11 **Shareholder Value Measures**

Years ended December 31

	2001	2000	1999	1998	1997
Daily production per thousand shares (boe)	**1.8**	1.6	1.3	1.1	1.0
Proven reserves per share (boe)	**6.6**	6.2	5.3	3.7	3.2
Cash flow per share ($)	**11.72**	10.86	4.89	2.73	3.09
Ratio of year-end bank debt to annual cash flow	**0.9**	1.1	2.6	2.2	1.4

The factors contributing to our success include an extensive base of undeveloped land (almost 3.4 million net acres at year-end), in-house professional and technical staff, and a strong balance sheet that provides the flexibility to pursue a strategy of organic growth or growth through acquisitions. This flexibility is also a key success factor in achieving good returns on investment, and has contributed to our history of low finding and development costs. The Company's five year history of finding and development costs and financial returns are summarized in the table below.

Penn West has always focused on cost control and the effective management of risks. Companies in the upstream oil and natural gas industry are, in general, price takers. Products are homogeneous commodities with the price setting mechanism determined by either global or continental supply and demand factors. This is why control of costs is an important element in generating above average financial performance. Penn West has delivered strong financial returns, even through the period of low crude oil and natural gas prices experienced during 1998, due to the Company's ability to manage risks and control costs.

Penn West has consistently created value by adhering to its established business plan. During the recent period of high commodity prices, the excess cash generated was used to pay down debt. This financial discipline provides the financial strength needed to continue growth through all phases of the commodity price cycle.

2001 was another successful year as Penn West generated increases in production levels and reserves of oil and natural gas. Given the high commodity prices experienced during the year and increased industry activity levels, unit costs increases were experienced. Netbacks for natural gas increased while crude oil netbacks dropped with lower crude oil prices. Further details on the year's results are discussed below. As we move into 2002 with a lower overall level of commodity prices, margins will be thinner. Penn West will continue to execute its disciplined approach focusing on cost control and balanced growth.

12 **Performance Indicators**

Years ended December 31

	2001	2000	1999	1998	1997
Finding and development costs – Proven reserves ($/boe)	**10.12**	6.76	6.00	4.70	4.78
Return on capital employed	**12.0%**	16.3%	9.2%	7.0%	9.2%
Return on equity	**24.9%**	29.9%	15.2%	9.8%	14.7%

13 Oil and Natural Gas Revenues

Years ended December 31

	2001	2000	1999
Oil and liquids ($000s)	**$ 444,319**	$ 425,639	$ 184,842
Natural gas ($000s)	**631,862**	526,518	229,739
Total ($000s)	**$ 1,076,181**	$ 952,157	$ 414,581

14 2001 Increases (Decreases) in Gross Revenues

($000s)

Gross revenues - 2000	$ 952,157
Increase in oil and liquids production	82,811
(Decrease) in oil and liquids price	(64,131)
Increase in natural gas production	40,012
Increase in natural gas price	65,332
Gross revenues - 2001	$ 1,076,181

Revenues from oil and liquids increased by four percent to $444 million in 2001 from $426 million in 2000. This increase was attributable to higher production volumes offset by lower average prices. The Company's average liquids price declined by 13 percent to $31.31 per barrel in 2001 from $35.83 per barrel in 2000, and the average daily production of oil and liquids increased by 20 percent to 38,884 barrels per day in 2001 from 32,462 barrels per day in 2000.

Revenues from natural gas increased by 20 percent in 2001 to $632 million from $527 million in 2000. This increase was due to average natural gas production increasing by eight percent to 330 mmcf per day in 2001 from 306 mmcf per day in 2000, and average natural gas prices increasing by 11 percent to $5.24 per mcf in 2001 from $4.70 per mcf in 2000.

15 Royalty Expenses

Years ended December 31

	2001	2000	1999
Royalties, net of Alberta Royalty Credit ($000s)	**$ 222,003**	$ 207,338	$ 70,707
Average cost ($/boe)	**$ 6.47**	$ 6.79	$ 3.14
Percentage of gross revenues	**21%**	22%	17%

The average royalty rate Penn West incurred in 2001, net of the Alberta Royalty Credit, was 21 percent, a reduction in rate of one percent from 2000. The rate decrease reflects a lower oil and liquids royalty rate of 16 percent versus 18 percent in 2000, and a natural gas royalty rate of 24 percent which was the same as in 2000. These rates reflect the price sensitive nature of royalty rates in Western Canada.

16 Operating Expenses

Years ended December 31

	2001	2000	1999
Operating expenses ($000s)	**$ 173,014**	$ 130,927	$ 84,261
Average cost ($/boe)	**$ 5.05**	$ 4.28	$ 3.75
Percentage increase over previous year	**18%**	14%	16%
Percentage of gross revenues	**16%**	14%	20%

In 2001, operating costs averaged $5.05 per boe, an 18 percent increase from the average cost of $4.28 per boe achieved in 2000. A portion of this increase reflects the higher costs incurred in the production of crude oil as compared to natural gas. The weighting of liquids in the Company's production mix increased to 41 percent of total production in 2001 from 39 percent of total production in 2000.

Operating costs for oil and liquids increased by 14 percent to $8.77 per barrel in 2001 from $7.68 per barrel in 2000. Operating costs for natural gas in 2001 were $0.40 per mcf, an increase of 14 percent from $0.35 per mcf in 2000. These increases reflect the higher costs of electricity and other field services.

17 Netbacks

Years ended December 31

	2001	2000	1999
Oil and liquids			
Production (bbls/day)	**38,884**	32,462	20,779
Price ($/bbl)	**$ 31.31**	$ 35.83	$ 24.37
Royalties ($/bbl)	**(5.15)**	(6.61)	(3.86)
Operating expenses ($/bbl)	**(8.77)**	(7.68)	(7.22)
Netback ($/bbl)	**$ 17.39**	$ 21.54	$ 13.29
Natural gas			
Production (mmcf/day)	**330.3**	306.2	245.1
Price ($/mcf)	**$ 5.24**	$ 4.70	$ 2.57
Royalties ($/mcf)	**(1.24)**	(1.15)	(0.46)
Operating expenses ($/mcf)	**(0.40)**	(0.35)	(0.33)
Netback ($/mcf)	**$ 3.60**	$ 3.20	$ 1.78

In 2001, Penn West received an average oil and liquids netback of $17.39 per barrel and a natural gas netback of $3.60 per mcf. The oil and liquids netback was down by 19 percent from $21.54 per barrel due to lower average commodity prices in 2001 and higher operating expenses. The netback for natural gas increased by 13 percent from $3.20 per mcf mainly as a result of higher prices which more than offset higher royalty and operating expenses.

18 General and Administrative Expenses

Years ended December 31

	2001	2000	1999
Gross expenses ($000s)	**$ 23,276**	$ 19,426	$ 13,986
Operator recoveries ($000s)	**(15,852)**	(12,884)	(7,208)
Capitalized expenses ($000s)	**–**	–	(2,344)
Net expenses ($000s)	**$ 7,424**	$ 6,542	$ 4,434
Gross general and administrative expenses – average cost ($/boe)	**$ 0.68**	$ 0.63	$ 0.62
Percentage of gross revenues	**2%**	2%	3%
Net general and administrative expenses – average cost ($/boe)	**$ 0.22**	$ 0.21	$ 0.20
Percentage of gross revenues	**1%**	1%	1%

Gross general and administrative expenses increased due to growth in staff levels to manage the Company's expanding asset base and production levels. Expressed on a unit of production basis, the gross general and administrative costs increased eight percent, to $0.68 per boe in 2001 from $0.63 per boe in 2000.

The level of per unit costs reflects Penn West's ability to control costs and exploit efficiencies and corporate productivity during a period of significant growth. Net general and administrative expenses on a per unit basis increased slightly to $0.22 per boe in 2001 from $0.21 per boe in 2000.

19 Financing Expenses

Years ended December 31

	2001	2000	1999
Interest ($000s)	**$ 26,706**	$ 42,586	$ 21,423
Cash flow times interest coverage	**24.0**	14.2	11.8
Average cost ($/boe)	**$ 0.78**	$ 1.39	$ 0.95
Percentage of gross revenues	**2%**	4%	5%

Interest expense for the year ended December 31, 2001 amounted to $26.7 million, a decrease of 37 percent from $42.6 million in 2000. This decrease was attributed to lower average debt levels during the year and the ability to capture the benefits of the lower interest rate environment experienced in 2001.

20 Depletion, Depreciation and Site Restoration Provision

Years ended December 31

	2001	2000	1999
Depletion and depreciation ($000s)	**$ 185,320**	$ 146,689	$ 84,030
Current site restoration provision ($000s)	**16,001**	13,238	10,590
	$ 201,321	$ 159,927	$ 94,620
Average cost ($/boe)	**$ 5.87**	$ 5.23	$ 4.21
Percentage of gross revenues	**19%**	17%	23%

Depletion, depreciation and the site restoration provision increased by 26 percent to a total of $201.3 million in 2001 from $159.9 million in 2000. This was a direct result of increases in the Company's production levels combined with an increase in the depletion rate. Average unit costs increased by 12 percent to $5.87 per boe in 2001 from $5.23 per boe in 2000.

21 Taxes

Years ended December 31

	2001	2000	1999
Current income taxes ($000s)	**$ 25,111**	$ -	$ -
Future income taxes ($000s)	**$ 166,518**	$ 177,630	$ 57,703
	$ 191,629	$ 177,630	$ 57,703
Effective tax rate	**43%**	44%	41%
Capital taxes ($000s)	**$ 8,980**	$ 4,708	$ 3,420

The provision for income taxes increased by eight percent to $191.6 million in 2001 from $177.6 million in 2000 as a result of 10 percent higher income before income taxes and a one percent decrease in the Company's effective tax rate to 43 percent from 44 percent in 2000. The provision for income taxes includes current taxes payable of $25.1 million as a result of increased levels of returns and profitability over the last two years.

Capital taxes rose by 91 percent in 2001 to $9.0 million from $4.7 million in 2000 due to continuing growth in the Company's capital structure.

22 Tax Pools

Years ended December 31 ($millions)

	2001	2000	1999
Undepreciated capital cost (UCC)	$ 398.5	$ 333.2	$ 256.7
Cumulative Canadian oil and gas property expense (COGPE)	750.9	644.3	540.1
Cumulative Canadian exploration expense (CEE)	1.9	1.9	66.9
Cumulative Canadian development expense (CDE)	128.8	95.7	86.7
Other	2.2	4.3	6.8
Total tax pools	$ 1,282.3	$ 1,079.4	$ 957.2

23 Items Affecting Cash Flow and Net Income

Years ended December 31

	2001		2000		1999	
	$/boe	%	$/boe	%	$/boe	%
Oil and natural gas	31.39	100.0	31.16	100.0	18.43	100.0
Net royalties	(6.47)	(20.6)	(6.79)	(21.8)	(3.14)	(17.0)
Operating expenses	(5.05)	(16.1)	(4.28)	(13.7)	(3.75)	(20.4)
Net operating income	19.87	63.3	20.09	64.5	11.54	62.6
General and administrative	(0.22)	(0.7)	(0.21)	(0.7)	(0.20)	(1.1)
Interest	(0.78)	(2.5)	(1.39)	(4.5)	(0.95)	(5.2)
Current and Capital taxes	(0.99)	(3.1)	(0.15)	(0.5)	(0.15)	(0.8)
Cash flow from operations	17.88	57.0	18.34	58.8	10.24	55.5
Depletion and depreciation	(5.87)	(18.7)	(5.23)	(16.8)	(4.21)	(22.8)
Future income taxes	(4.86)	(15.5)	(5.81)	(18.6)	(2.56)	(13.9)
Net income	7.15	22.8	7.30	23.4	3.47	18.8

Cash flow increased by nine percent to $613 million in 2001 from $560 million in 2000. Basic cash flow per share increased by eight percent to $11.72 in 2001, compared to $10.86 in 2000.

Net income increased by 10 percent to $245 million in 2001 from $222 million in 2000. Basic net income per share rose by nine percent in 2001 to $4.69 from $4.31 in 2000.

LIQUIDITY AND CAPITAL RESOURCES

24 Capitalization

at December 31

	2001		2000		1999	
	$ millions	%	$ millions	%	$ millions	%
Common share equity, at market	1,866	75.3	1,938	76.6	1,447	70.4
Bank loan	556	22.4	590	23.3	596	29.0
Working capital deficiency	57	2.3	2	0.1	12	0.6
	2,479	100.0	2,530	100.0	2,055	100.0

Penn West's closing market price on the Toronto Stock Exchange was $35.40 per share in 2001, $37.40 per share in 2000 and $28.25 per share in 1999. Total capitalization was $2.1 billion at year-end 1999 and rose to the $2.5 billion level at year-end 2000 and 2001.

Penn West ended the year 2001 with higher reserves, increased production levels and lower bank debt versus year-end 2000. The history of relatively low finding costs continued through 2001, providing the Company with a strong balance sheet heading into 2002.

Penn West has an aggregate borrowing limit of $750 million on its loan facility with a syndicate of Canadian chartered banks, on which the Company had drawn $556 million at year-end 2001. This loan facility is subject to an annual review by the lenders and requires no principal repayments provided that certain covenants with respect to tangible net-worth and cash flow coverage tests are met. Penn West has ample coverage under these tests.

Penn West will fund its 2002 planned capital spending program of $400 to $500 million from both its cash flow, estimated at $400 to $450 million, and unused credit lines. The Company has sufficient capital to replace estimated 2002 production and to continue generating long term growth.

BUSINESS RISKS

The Company's exploration, development, production and acquisition activities are conducted in the Western Canadian Sedimentary Basin and involve a number of business risks. These risks include the uncertainty of replacing annual production and finding new reserves on an economic basis, and the instability of commodity prices, foreign exchange rates and interest rates. To the extent practical, these risks are mitigated by employing highly trained and competent management and staff who manage these risks as follows:

- Balance production portfolio between oil and natural gas;
- Pursue numerous investment opportunities, including:
    - Low risk development projects;
    - Moderate risk exploration plays;
    - Strategic acquisitions; and
- Maintain low finding, operating and general and administrative costs.

The Company's management team believes that these principles, validated through Penn West's nine year track record of growth and profitability, position the Company to continue on a track of sustained growth in production volumes and creation of shareholder value.

The oil and natural gas industry is subject to extensive government influence through taxation policies and environmental legislation. Taxation policy has remained stable within a reasonable operating environment, however, there is always the potential for change.

The industry is also subject to extensive regulations imposed by governments related to the protection of the environment. Environmental legislation in Western Canada has undergone major revisions that have resulted in environmental standards and compliance becoming more stringent. The Company is committed to meeting its responsibilities to protect the environment wherever it operates, and has instituted a series of controls and procedures with respect to environmental protection that meet the standards of the Environmental Code of Practice published by the Canadian Association of Petroleum Producers.

FUTURE PROSPECTS

Focusing in its five Core Areas, the Company continues to generate economic prospects through acquisitions, exploration, exploitation and development. The Company's extensive undeveloped land base and existing high quality, long life reserves provide opportunities for low risk growth in both reserves and production for several years. The slowdown in economic activity and lower expectations for commodity prices in 2002 will generate opportunities for consolidation within the industry. Consolidation in the oil and natural gas industry has also improved the Company's ability, due to its relative size , to compete for capital and attractive investment opportunities.

Penn West has provided positive earnings in each quarter for the last nine years since new management was introduced. Return on invested capital and return on equity over the last two years have averaged 14 percent and 27 percent respectively. Fiscal responsibility has always played a major role in the timing of actions taken by management and will continue to be important in the ongoing strategy for long term profitable growth. Consistent with a slowdown in economic activity and reduced demand and prices for crude oil and natural gas, Penn West is reducing activity levels and capital spending in line with its forecast cash flow. Forecast cash flow for 2002 is $400 to $450 million, or $7.50 to $8.50 per share. The Company has hedged an average of 93 mmcf per day of natural gas and an average of 9,800 barrels per day of crude oil for 2002. Notwithstanding the forecast for lower activity levels, the Company expects to grow both production and reserves. Penn West's development projects in 2002 will be targeting both natural gas and crude oil prospects.

The results of operations and the forecast noted above are sensitive to changes in production, commodity prices, foreign exchange rates and interest rates. The table on the following page summarizes those sensitivities.

25 Sensitivities

	Impact on 2002 Cash Flow	Impact on 2002 Net Income
Change of:		
Cdn $1.00/bbl in oil price ($000s)	$ 12,900	$ 7,400
Per Common Share	$ 0.24	$ 0.14
1,000 bbls/day in daily oil production ($000s)	$ 8,600	$ 3,500
Per Common Share	$ 0.16	$ 0.07
$0.10/mcf in natural gas price ($000s)	$ 9,300	$ 5,300
Per Common Share	$ 0.18	$ 0.10
10,000 mcf/day in daily natural gas production ($000s)	$ 9,200	$ 2,800
Per Common Share	$ 0.17	$ 0.05
$0.01 in US$/Cdn$ exchange rate ($000s)	$ 9,100	$ 5,200
Per Common Share	$ 0.17	$ 0.10
1% in prime interest rate ($000s)	$ 6,600	$ 3,800
Per Common Share	$ 0.12	$ 0.07

Management's Report

The consolidated financial statements of Penn West Petroleum Ltd. were prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this report is consistent with that shown in the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors appointed by the shareholders have examined the consolidated financial statements. The Audit Committee, consisting of a majority of non-management directors, has reviewed these consolidated financial statements with management and the auditors and has reported to the Board of Directors. The Board has approved the consolidated financial statements.

Gerry J. Elms	**Todd H. Takeyasu**	**William E. Andrew**
Vice President, Finance and Corporate Secretary	Treasurer	President

March 21, 2002

Auditors' Report

To the Shareholders of Penn West Petroleum Ltd.:

We have audited the consolidated balance sheets of Penn West Petroleum Ltd. as at December 31, 2001 and 2000 and the consolidated statements of income and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

Arthur Andersen LLP
Chartered Accountants

Calgary, Alberta
March 18, 2002

Consolidated Balance Sheets

December 31

($000s)	2001	2000
Assets		
Current		
Accounts receivable	**$ 88,061**	$ 140,348
Prepaids and other	**14,996**	15,677
	103,057	156,025
Property, plant and equipment (Note 2)	**2,293,308**	1,845,096
	$ 2,396,365	$ 2,001,121
Liabilities and shareholders' equity		
Current		
Accounts payable and accrued liabilities	**$ 135,355**	$ 158,281
Current income taxes payable (Note 5)	**25,111**	–
	160,466	158,281
Bank loan (Note 3)	**556,330**	590,355
Site restoration and abandonment	**27,236**	26,127
Future income taxes (Note 5)	**538,264**	371,746
	1,121,830	988,228
Shareholders' equity		
Share capital (Note 4)	**463,293**	448,940
Retained earnings	**650,776**	405,672
	1,114,069	854,612
	$ 2,396,365	$ 2,001,121

Approved on behalf of the Board:

Director

D L Russell

Director

Consolidated Statements of Income and Retained Earnings

Years ended December 31

($000s, except per share amounts)	2001	2000
Revenues		
Oil and natural gas	$ 1,076,181	$ 952,157
Royalties	(222,003)	(207,338)
	854,178	744,819
Expenses		
Operating	173,014	130,927
General and administrative	7,424	6,542
Interest on long-term debt	26,706	42,586
Depletion and depreciation	201,321	159,927
	408,465	339,982
Income before taxes	445,713	404,837
Taxes		
Capital	8,980	4,708
Current income (Note 5)	25,111	–
Future income (Note 5)	166,518	177,630
	200,609	182,338
Net income	245,104	222,499
Retained earnings, beginning of year	405,672	195,134
Change in accounting policy - future income taxes (Note 5)	–	(11,961)
Retained earnings, end of year	$ 650,776	$ 405,672
Net income per common share (Note 6)		
Basic	$ 4.69	$ 4.31
Diluted	$ 4.54	$ 4.16

Consolidated Statements of Cash Flow

Years ended December 31

($000s, except per share amounts)	2001	2000
Operating activities		
Net income	$ 245,104	$ 222,499
Depletion and depreciation	201,321	159,927
Future income taxes	166,518	177,630
Funds flow from operations	612,943	560,056
Decrease (increase) in non-cash working capital (Note 8)	39,297	(5,151)
	652,240	554,905
Investing activities		
Additions to property, plant and equipment	(649,711)	(550,309)
Expenditures on abandonments	(14,892)	(11,470)
Proceeds on sales of property, plant and equipment	16,179	8,388
Decrease (increase) in non-cash working capital (Note 8)	16,075	(4,055)
Cash flow used in investing activities	(632,349)	(557,446)
Financing activities		
Decrease in bank loan	(34,025)	(6,018)
Issue of common shares	14,353	8,799
Increase in non-cash working capital (Note 8)	(219)	(240)
Cash flow (used in) from financing activities	(19,891)	2,541
Increase in cash	–	–
Cash and cash equivalents, beginning of year	–	–
Cash and cash equivalents, end of year	$ –	$ –
Cash flow per common share (Note 6)		
Basic	$ 11.72	$ 10.86
Diluted	$ 11.36	$ 10.46

Notes to the Consolidated Financial Statements

December 31, 2001 and 2000
(all tabular amounts in $000s, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements were prepared in accordance with generally accepted accounting principles in Canada. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

a) Principles of consolidation

The consolidated financial statements include the accounts of Penn West Petroleum Ltd. (the "Company") and all its wholly owned subsidiaries and partnerships.

b) Cash and cash equivalents

Cash and cash equivalents include cash in the bank less outstanding cheques and deposits with a maturity of less than one year.

c) Other current assets

Other current assets include deposits, prepayments and inventory valued at the lower of cost and net realizable value.

d) Property, plant and equipment

i) Capitalized costs

The full cost method of accounting for oil and natural gas operations is followed whereby all costs of acquiring, exploring and developing oil and natural gas reserves are capitalized. These costs include lease acquisition, geological and geophysical, exploration and development and related equipment costs. Proceeds from the disposition of oil and natural gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized unless such disposition results in a significant change in the depletion and depreciation rate.

ii) Depletion and depreciation

Depletion and depreciation of resource properties are calculated using the unit-of-production method based on production volumes before royalties in relation to total proven reserves as estimated by independent engineers. Natural gas volumes are converted to equivalent oil volumes based upon the relative energy content of six thousand cubic feet of natural gas to one barrel of oil. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proven reserves and excludes estimated salvage values and the cost of unevaluated property. Significant processing facilities, net of estimated salvage, are depreciated based on the estimated useful lives of the facilities.

iii) Ceiling test

The carrying amount of property, plant and equipment, net of recorded future income taxes and site restoration and abandonment costs, is limited to the sum of estimated future net cash flows from proven reserves and the cost, less impairment, of undeveloped properties. Estimated future capital costs, production-related general and administrative expenses, interest expenses, and applicable income taxes are deducted in determining estimated future net cash flows from proven reserves.

iv) Future site restoration and abandonment costs

A provision has been made for estimated future site restoration and abandonment costs calculated on the unit-of-production method. The 2001 provision of $16.0 million (2000 – $13.2 million) is included in depletion and depreciation expense.

The estimates in ii) and iii) and iv) are based on sales prices, costs and regulations in effect at the end of the year.

e) Joint ventures

Many of the Company's exploration and development activities are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.

f) Hedging activities

The Company uses forward contracts to hedge exposure to commodity price, foreign exchange, electricity costs and interest rate fluctuations. Gains and losses on oil and natural gas and foreign exchange transactions are reported as adjustments to oil and natural gas revenue when the related production is sold. Gains or losses on interest rate hedging transactions are reported as adjustments to interest on long-term debt.

g) Foreign currency translation

Amounts denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Gains or losses are included in net income, except those related to long-term debt on which the gains or losses are deferred and amortized over the life of the debt.

h) Stock options

The Company has a stock option plan as described in Note 4 c). Consideration from exercised stock options, comprising the number of options times the exercise price, is added to share capital.

2. PROPERTY, PLANT AND EQUIPMENT

December 31,	2001	2000
Oil and natural gas properties, and production and processing equipment	**$ 2,944,724**	$ 2,312,569
Other	**9,230**	7,853
	2,953,954	2,320,422
Accumulated depletion and depreciation	**(660,646)**	(475,326)
Net book value	**$ 2,293,308**	$ 1,845,096

During the years ended December 31, 2001 and 2000, no overhead expenses were capitalized. The cost of unevaluated property excluded from the depletion base as at December 31, 2001 was $176.4 million (2000 – $148.0 million).

3. BANK LOAN

December 31,	2001	2000
Bankers' acceptances	**$ 556,330**	$ 590,355

The Company has a credit facility arranged with a syndicate of Canadian chartered banks which is unsecured and bears interest at the prime rate or bankers' acceptance rates plus a stamping fee which varies between 50 and 100 basis points, depending on the Company's debt-to-cash flow ratio. The maximum borrowing under the facility is $750 million comprising a $700 million credit facility and a $50 million operating loan facility. The facility is subject to an annual review by the lenders at which time a lender can request conversion to a term loan with repayment not to exceed three years. As at December 31, 2001, the Company had $33.4 million (2000 – $21.8 million) of cheques issued in excess of cash on hand, included in accounts payable, which reduced the amount otherwise available to be drawn on the credit facility.

4. SHARE CAPITAL

a) Authorized

i) *Unlimited number of preferred shares issuable in one or more series.*

ii) *Unlimited number of voting common shares without nominal or par value.*

b) Issued

Common shares	Number	Consideration
Balance, December 31, 1999	51,222,198	$ 440,141
Issued on exercise of stock options	548,960	7,120
Issued to employee stock savings plan	47,224	1,679
Balance, December 31, 2000	51,818,382	$ 448,940
Issued on exercise of stock options	849,365	12,381
Issued to employee stock savings plan	55,013	1,972
Balance, December 31, 2001	52,722,760	$ 463,293

c) Stock options

The Company has a stock option plan (the "Plan") for the benefit of its employees and directors. Options under the Plan vest over a five year period and, if unexercised, expire six years from the date of grant. Total stock option activity relating to the stock option plan was as follows:

	Shares	Weighted average exercise price
Balance, December 31, 1999	4,328,825	$ 18.11
Granted	1,610,500	$ 32.15
Exercised	(548,960)	$ 12.97
Cancelled	(263,650)	$ 27.24
Balance, December 31, 2000	5,126,715	$ 22.60
Granted	1,521,300	$ 38.64
Exercised	(849,365)	$ 14.58
Cancelled	(412,150)	$ 38.33
Balance, December 31, 2001	5,386,500	$ 27.19

As of December 31, 2001, options to purchase 1,325,200 (2000 – 986,415) shares were exercisable. As of December 31, 2001, there were 4,689,475 common shares reserved for future issuance. Subsequent to year-end the directors passed a resolution, subject to shareholder approval, to increase the number of common shares reserved for future issuance to approximately 10 percent of common shares outstanding. The table below summarizes information about stock options outstanding at December 31, 2001:

Range of exercise prices	**Outstanding as of December 31, 2001**	Weighted average remaining contractual life	Weighted average exercise price	**Exercisable as of December 31, 2001**	Weighted average exercise price
$12.10 – $18.15	**1,260,150**	1.9	$ 14.91	570,800	$ 14.76
$18.16 – $27.25	**865,750**	3.3	$ 19.65	267,650	$ 19.66
$27.26 – $40.85	**3,260,600**	4.5	$ 33.94	486,750	$ 31.28
	5,386,500		$ 27.19	1,325,200	$ 21.82

5. INCOME TAXES

Effective January 1, 2000, the Company adopted the accounting recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Subsequent to the date of adoption, future income taxes are computed on temporary differences using income tax rates that are expected to apply when future income tax assets and liabilities are realized or settled. Future income tax liabilities result primarily from differences between the book value and tax basis of property, plant and equipment. These liabilities are offset by future tax assets that arise from differences between the book value and tax basis of site restoration and abandonment and share issue costs. The recommendations were applied retroactively without restatement of prior year financial statements. As a result of these changes, effective January 1, 2000, future income taxes and property, plant and equipment were increased by $40.8 million and $28.9 million respectively and retained earnings decreased by $11.9 million.

The provision for income taxes reflects an effective income tax rate that differs from combined federal and provincial statutory tax rates as follows:

Years ended December 31,	2001	2000
Income before taxes	**$ 445,713**	$ 404,837
Corporate income tax rate	**43.5%**	44.6%
Computed income tax provision	**$ 193,885**	$ 180,557
Increase (decrease) resulting from:		
Non-deductible Crown payments, net	**88,682**	80,588
Resource allowance	**(90,938)**	(83,515)
Total income taxes	**$ 191,629**	$ 177,630

Current	**25,111**	–
Future	**166,518**	177,630
	$ 191,629	$ 177,630

As at December 31, future income tax assets (liabilities) arise from temporary differences as follows:

	2001	2000
Property, plant and equipment	**$ (547,724)**	$ (381,821)
Site restoration and abandonment	**8,886**	8,622
Share capital	**574**	1,453
	$ (538,264)	$ (371,746)

6. NET INCOME AND CASH FLOW PER COMMON SHARE

In the fourth quarter of 2000, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants for the computation of earnings per share. Prior period net income and cash flow per share amounts were restated for the change to the treasury stock method from the imputed earnings method. The treasury stock method uses the Company's share prices for determining the dilutive effect of in-the-money stock options. The impact on prior period net income and cash flow per share amounts is not significant.

Cash flow amounts are calculated by adding depletion and depreciation and future income taxes to net income. The weighted average number of common shares outstanding used to calculate per share amounts is as follows:

Years ended December 31,	**2001**	2000
Weighted average number of common shares outstanding		
Basic	**52,291,615**	51,591,370
Diluted	**53,973,092**	53,518,671

7. FINANCIAL INSTRUMENTS

The Company's financial instruments, included in the balance sheets, are comprised of accounts receivable, current liabilities and the bank loan. The fair values of these financial instruments approximate their carrying amounts due to the short-term maturity of the instruments and the market rate of interest applied to the bank loan.

All of the Company's accounts receivable are with customers in the oil and natural gas industry and are subject to normal industry credit risk. The Company uses various types of financial instruments to reduce its exposure to fluctuating oil and natural gas prices, electricity costs and interest rates. The Company had the following financial hedging positions outstanding at December 31, 2001:

	Notional Volume	Period	Prices Received	Market value* of contracts at year-end ($000s)
Crude Oil				
WTI Costless Collars	9,000 Bbls/d	Jan/02 to Jun/02	US $19.00 to $22.15/Bbl	$ –
Natural Gas				
AECO Costless Collars	10,000 GJ/d	Jan/02 to Oct/02	$2.50 to 3.73/GJ	–
AECO Costless Collars	75,000 GJ/d	Jan/02 to Jun/02	$3.25 to 3.60/GJ	(59)
AECO Costless Collars	95,000 GJ/d	Apr/02 to Jun/02	$3.00 to 3.94/GJ	–
AECO Swaps	35,000 GJ/d	Jan/02 to Mar/02	$3.38/GJ	91
Electricity				
Alberta Power Pool Swaps	20 MW	2002 - 2003	$60.00 to $65.05/MWh	(7,236)
Alberta Power Pool Swaps	20 MW	2004 - 2005	$50.00/MWh	(2,277)
Interest Swaps	$300MM	Jan/02 to Nov/02	2.31% to 2.98%	(741)

* Unrealized gain (loss) based on posted rates for similar contracts at the balance sheet date.

8. CASH FLOWS

Changes in non-cash working capital items increased (decreased) cash and cash equivalents as follows:

Years ended December 31,	2001	2000
Accounts receivable	$ 52,287	$ (71,967)
Other current assets	681	1,732
Accounts payable and accrued liabilities	(22,926)	60,789
Current income taxes payable	25,111	–
	$ 55,153	$ (9,446)
Operating activities	$ 39,297	$ (5,151)
Investing activities	16,075	(4,055)
Financing activities	(219)	(240)
	$ 55,153	$ (9,446)

Amounts paid during the year related to interest expense and capital taxes were as follows:

Years ended December 31,	2001	2000
Interest paid	$ 27,444	$ 41,809
Capital taxes paid	$ 5,962	$ 5,526

Summary Information – Five Year Summary

Years ended December 31

		2001	2000	1999	1998	1997
Financial						
($000s, except per share amounts)						
Gross revenues		**1,076,181**	952,157	414,581	210,739	217,559
Cash flow		**612,943**	560,056	230,336	113,010	122,899
Basic per share		**11.72**	10.86	4.89	2.73	3.09
Diluted per share		**11.36**	10.46	4.73	2.65	2.95
Net income		**245,104**	222,499	78,013	32,588	37,216
Basic per share		**4.69**	4.31	1.66	0.79	0.94
Diluted per share		**4.54**	4.16	1.60	0.77	0.89
Capital expenditures		**633,532**	541,921	759,961	248,980	179,386
Total assets		**2,396,365**	2,001,121	1,506,784	793,457	584,779
Bank indebtedness		**556,330**	590,355	596,373	249,809	169,468
Shareholders' equity		**1,114,069**	854,612	635,275	392,445	274,026
Common shares outstanding at year end (000s):						
Basic		**52,723**	51,818	51,222	45,278	40,004
Diluted		**58,109**	56,945	55,551	48,614	43,553
Market value per common share	– High	**45.25**	41.50	34.50	20.50	20.20
($/share)	– Low	**30.30**	28.25	14.60	12.75	13.35
	– Close	**35.40**	37.40	28.25	16.50	15.45
Operating						
Production						
Oil and liquids production (bbls/day)		**38,884**	32,462	20,779	13,958	12,604
Oil and liquids price ($/bbl)		**31.31**	35.83	24.37	15.42	21.71
Natural gas production (mmcf/day)		**330.3**	306.2	245.1	184.0	164.8
Natural gas price ($/mcf)		**5.24**	4.70	2.57	1.97	1.96
Reserves (proven and probable)						
Oil and liquids (mmbbls)		**229.1**	196.3	149.4	64.7	47.7
Natural gas (bcf)		**1,071.4**	1,078.8	994.0	772.0	638.4
Wells drilled (gross)						
Natural gas		**274**	228	139	105	71
Oil		**118**	129	44	23	69
Dry		**61**	48	27	28	22
Total wells drilled		**453**	405	210	156	162
Undeveloped land holdings						
Western Canada (000s of acres)						
Gross		**3,672**	3,030	2,583	2,027	1,856
Net		**3,381**	2,763	2,280	1,735	1,563
Average working interest (%)		**92**	91	88	86	84

Summary Information – Quarterly Financial Summary

	2001				2000			
Three months ended,	**Mar 31**	**Jun 30**	**Sept 30**	**Dec 31**	Mar 31	Jun 30	Sept 30	Dec 31
Financial								
($000s, except per share amounts)								
Gross revenues	**365,717**	**296,553**	**226,061**	**187,850**	167,206	212,257	251,500	321,193
Cash flow	**226,201**	**179,668**	**129,909**	**77,165**	93,855	122,212	147,499	196,490
Basic per share	**4.35**	**3.44**	**2.47**	**1.46**	1.83	2.37	2.85	3.81
Diluted per share	**4.19**	**3.30**	**2.43**	**1.43**	1.77	2.27	2.75	3.67
Net income	**104,188**	**73,620**	**46,219**	**21,077**	32,282	44,854	57,749	87,614
Basic per share	**2.01**	**1.40**	**0.88**	**0.40**	0.63	0.87	1.12	1.69
Diluted per share	**1.95**	**1.35**	**0.86**	**0.39**	0.61	0.83	1.08	1.64
Operating								
Oil and liquids production (bbls/day)	**35,946**	**36,512**	**40,728**	**42,261**	30,200	31,499	32,910	35,203
Oil and liquids price ($/bbl)	**35.21**	**33.91**	**33.64**	**23.58**	35.11	34.00	37.59	36.39
Natural gas production (mmcf/day)	**310.7**	**340.2**	**336.1**	**334.0**	270.7	327.4	316.1	310.3
Natural gas price ($/mcf)	**9.01**	**5.94**	**3.23**	**3.13**	2.87	3.85	4.74	7.12

CONVERSIONS OF UNITS

Imperial	**Metric**
1 ton	0.907 tonnes
1.102 tons	1 tonne
1 acre	0.40 hectares
2.5 acres	1 hectare
1 bbl	0.159 cubic metres
6.29 bbls	1 cubic metre
1 mcf	28.2 cubic metres
.035 mcf	1 cubic metre
1 mile	1.61 kilometres
.62 miles	1 kilometre

Unless otherwise stated, all financial sums are stated in Canadian dollars.

ABBREVIATIONS

bbl	barrel (oil)
mmbbls	million barrels
bbls per day	barrels per day
boe	barrels of oil equivalent (based on 6 mcf of natural gas equals one barrel of oil)
mcf	thousand cubic feet (natural gas)
mmcf	million cubic feet
mmcf per day	million cubic feet per day
GJ	gigajoule
bcf	billion cubic feet
tcf	trillion cubic feet
API	American Petroleum Institute
TSE	The Toronto Stock Exchange
WTI	West Texas Intermediate Crude Oil
MW	megawatt
MWh	megawatt hour

Our Employees

Ray Abt
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Laurie Agate
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Randolph Woods
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Elona Zaslavsky
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Perry Zich

Corporate Information

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N. Murray Edwards
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Donald J. Rae
Senior Vice President, Exploration

Bryan D. Clake
Vice President, Marketing

Gerry J. Elms
Vice President, Finance and Corporate Secretary

David W. Middleton
Vice President, Production

Dale A. Miller
Vice President, Engineering and Operations

Gordon Timm
Vice President, Land

Directors

William E. Andrew (2)
Calgary, Alberta

John A. Brussa (1)(4)
Calgary, Alberta

N. Murray Edwards (2)(3)
Calgary, Alberta

Nabih A. Faris (1)(3)(4)
West Vancouver, B.C.

Thomas E. Phillips (4)
Calgary, Alberta

Denis L. Russell (1)
West Vancouver, B.C.

Notes:
(1) Member of the Audit Committee
(2) Member of the Executive Committee
(3) Member of the Compensation Committee
(4) Member of the Reserve Committee

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Legal Counsel

Burnet, Duckworth & Palmer
Calgary, Alberta

Thackray Burgess
Calgary, Alberta

Bennett Jones
Calgary, Alberta

Bankers

Canadian Imperial Bank of Commerce
Royal Bank of Canada
The Bank of Nova Scotia
The Toronto-Dominion Bank
Bank of Montreal
Deutsche Bank Canada

Transfer Agent

CIBC Mellon Trust Company
Calgary, Alberta

Investors are encouraged to contact The CIBC Mellon Trust Company for information regarding their security holdings.
They can be reached at:

CIBC Mellon Trust Company:
(416) 643-5000 or toll-free throughout North America at 1-800-387-0825
e-mail: inquiries@cibcmellon.ca
Web site: www.cibcmellon.ca

Auditors

Arthur Andersen LLP
Calgary, Alberta

Stock Exchange Listing

The Toronto Stock Exchange
Trading Symbol: PWT

Head Office

Suite 2000, 425 - First Street S.W.
Calgary, Alberta T2P 3L8
Telephone (403) 777-2500
Fax (403) 777-2699
www.pennwest.com

For further information contact:

William E. Andrew
President
(403) 777-2502
e-mail: bill.andrew@pennwest.com

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A QUICK REFERENCE TO TABLES

Penn West Petroleum Ltd.

Suite 2000, 425 - First Street S.W.
Calgary, Alberta T2P 3L8

Telephone (403) 777-2500
Fax (403) 777-2699

www.pennwest.com